Glossary of Selected Manufacturer Financial Terms

- Income Statement: Revenues – Expenses = Profits (over a period of time).
  - Matching Principle: Report expenses on the Income Statement in the same period in which the related revenues are earned.
  - Revenues: The income generated from the sale of goods or services, or any other use of capital or assets, associated with the main operations of an organization before any costs or expenses are deducted.
  - Variable Costs: “Direct” expenses used in production of a good or service for sale including direct labor and materials.
  - COGS: Cost of Goods Sold. The total variable costs of products that have been sold, not including indirect costs such as selling or distribution costs.
  - Gross Profit: Total revenue less “direct” product or service expenses, including materials and labor. Does not take out SG&A and other expenses.
  - Fixed Costs: Expenses that remain at essentially the same level regardless of how many units of a product or service are produced and sold. Examples include advertising, depreciation, rent, non-labor salaries, interest, taxes, etc.
  - Depreciation and Amortization: The fraction of the original cost of a long-term asset (e.g., a computer system or an acquired business) that is recorded as an expense during the reporting period. The cash may actually have been spent in a prior year.
  - SG&A: Selling, General, and Administrative Expenses.
  - Operating Profit: Profit from the operations of the business, before taking out interest and tax expense. Also known as EBIT: Earnings Before Interest and Tax.
  - Net Income: The profit remaining after all expenses are subtracted from revenues for the period.
- Balance Sheet: Assets = Liabilities + Equity (at a specific point in time).
  - Assets: Resources of value that are owned by the company and that are expected to provide a future benefit.
    - Cash and Cash Equivalents: Cash and assets that are expected to be converted to cash in the immediate future such as certificates of deposit (CDs) and money market funds.
    - Accounts Receivable: Money owed to the company from customers who have received a product or service on credit and have not yet paid for it.
    - Fixed Assets: Buildings, vehicles, computers – any asset that is not expected to be consumed or sold in the current year.
    - Intangible Assets: Non-physical assets such as patents, trademarks, copyrights, etc.

    - Goodwill: An intangible asset recorded when one company purchases another. It is the purchase price less the fair market value of the acquired company's assets and liabilities.
  - Liabilities: Debts and other financial obligations.
    - Accounts Payable: Money the company owes to suppliers who have provided a product or service to the company on credit but who have not yet been paid for it.
    - Short Term Debt: Loans due within a year.
    - Long Term Debt: Loans due in more than one year.
  - Equity: Shareholders' ownership stake in the company.
    - Stock: The amount of money that the shareholders put into the business at the start, and over time, in exchange for ownership shares in the company.
    - Retained Earnings: The amount of profit that has been re-invested back in the business, as opposed to being paid out as dividends/distributions.
- Cash Flow Statement: The firm's cash inflows and cash payments over a specified period of time from 3 separate activities:
  1. Operating activities – cash used or generated from day-to-day operating activities.
  2. Investing activities – cash used or generated by investments.
  3. Financing activities – cash used or generated to finance the business operations; debt or equity financing.
- Financial Ratios and KPIs:
  - EBITDAR: Earnings Before Interest, Tax, Depreciation, Amortization, and Restructuring.
  - Gross Profit Margin = Gross Profit in $ / Net Sales.
    Gross profit as a percent of revenue.
  - ROS/ROR: Return on Sales, Return on Revenue, or Profit Margin = Net Profit $ / Revenue.
    Indicates the firm's profit margin on revenue earned.
  - ROA: Return on Assets = Net Profit $ / Total Assets.
    Indicates the firm's efficiency in managing the assets of the firm.
  - ROE: Return on Equity = Net Profit $ / Total Equity.
    Indicates the profitability of the shareholders' investment in the firm.
  - Inventory Turnover = Cost of Goods Sold / Inventory.
    The rate at which the firm is selling inventory.
  - Current Ratio = Current Assets – Current Liabilities.
    The firm's ability to meet short-term obligations using short-term assets.
  - Debt to Equity = Total Debt / Shareholder's Equity.
    How the firm is financed by debt compared to equity.